

## Message Text

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ACTION EUR-12

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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FM AMCONSUL MONTREAL

TO SECSTATE WASHDC 8807

INFO AMEMBASSY OTTAWA

AMCONSUL QUEBEC

AMCONSUL TORONTO BY POUCH

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E. O. 11652: N/A

TAGS: EINV, EIND, EMIN, CA

SUBJ: PQ ASBESTOS POLICY

REF: QUEBEC 48

1. BEGIN SUMMARY: SERIES OF OFTEN CONTRADICTORY REMARKS SUGGESTS THAT PQ IS HAVING DIFFICULT TIME IN ELABORATING POLICY FOR QUEBEC ASBESTOS INDUSTRY, DOMINATED BY AMERICAN FIRMS AND THE SOURCE OF MOST OF THE ASBESTOS CONSUMED IN U.S. WITH OBJECTIVE OF INCREASING PROCESSING OPERATIONS AND NUMBER OF JOBS WITHIN QUEBEC, GOVERNMENT IS CONSIDERING NUMBER OF OPTIONS, INCLUDING NATIONALIZATION. PROSPECTS FOR SIGNIFICANT GAINS IN EMPLOYMENT IN ASBESTOS PROCESSING APPEAR LIMITED, HOWEVER, AND INDUSTRY IS HOPEFUL THAT PQ POLICY STATEMENT ON ASBESTOS, EXPECTED IN MID-MAY, WILL RECOGNIZE ECONOMIC REALITIES. INDUSTRY ATTITUDE APPEARS MORE OPTIMISTIC NOW THAN WAS CASE SEVERAL MONTHS AGO. END SUMMARY.

2. A CONSTANT IN PQ POLICY STATEMENTS THROUGHOUT PAST YEARS HAS

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BEEN NEED TO ACQUIRE GOVERNMENT PARTICIPATION IN QUEBEC'S ASBESTOS INDUSTRY. (PRODUCTION IN 1976 VALUED AT \$340 MILLION.) YET STATEMENTS FROM QUEBEC SINCE ELECTION OF PQ HAVE BEEN CONFUSING AND OFTEN CONTRADICTORY. PQ POLICY TOWARDS ASBESTOS INDUSTRY IS OF INTEREST TO USG SINCE FOUR OF FIVE COMPANIES OPERATING IN QUEBEC HAVE SUBSTANTIAL US INTERESTS (CANADIAN JOHNS-MANVILLE AND CAREY-CANADIAN MINES ARE TOTALLY OWNED BY JOHNS-MANVILLE AND

JIM WALTER CORP.; LAKE ASBESTOS AND ASBESTOS CORP. HAVE MAJORITY OWNERSHIP INTERESTS BY ASARCO AND GENERAL DYNAMICS.), AND SINCE APPROXIMATELY 3/4 OF ASBESTOS CONSUMED IN US IS OF QUEBEC ORIGIN.

3. DESIRE OF PQ TO ACQUIRE GREATER CONTROL OVER ASBESTOS INDUSTRY REFLECTS PQ OBJECTIVES OF INCREASING AMOUNT OF ASBESTOS PROCESSING IN QUEBEC AND IMPROVING HEALTH-RELATED WORKING CONDITIONS FOR LABORERS IN INDUSTRY. DIFFICULTIES ENCOUNTERED BY PQ IN REACHING DECISION ON ASBESTOS POLICY REFLECT BOTH DISAGREEMENT WITHIN GOVERNMENT ON BEST APPROACH, AND REALIZATION THAT MANAGEMENT OF ASBESTOS OPERATIONS AND ACHIEVEMENT OF PROCESSING GOALS MAY PROVE MORE DIFFICULT THAN ANTICIPATED.

4. WHILE HEALTH REQUIREMENTS COULD PRESUMABLY BE MET BY ENFORCING MORE RIGOROUS REGULATIONS, INFLUENTIAL GROUP WITHIN PQ APPARENTLY BELIEVES THAT MOST EFFECTIVE WAY OF INCREASING ASBESTOS PROCESSING OPERATIONS WITHIN QUEBEC IS THROUGH SOME FORM OF DIRECT GOVERNMENT PARTICIPATION IN INDUSTRY. PREMIER LEVESQUE WAS PRESEMBLY REFLECTING THIS VIEWPOINT IN HIS NEW YORK SPEECH IN JANUARY WHEN HE SAID PQ DID NOT ENVISAGE POLICY OF NATIONALIZATION OR DIRECT TAKE-OVER OF BUSINESS IN QUEBEC, WITH THE SOLE POSSIBLE EXCEPTION OF THE MINING AND PROCESSING OF ASBESTOS. NEXT MAJOR STATEMENT BY MEMBER OF PQ GOVERNMENT ON ASBESTOS INDUSTRY WAS ONE THAT FINANCE MINISTER JACQUES PARIZEAU DID NOT MAKE, BUT WHICH WAS INCLUDED IN ADVANCE COPY FOR PRESS OF SPEECH WHICH PARIZEAU MADE TO MONTREAL'S CANADIAN CLUB FEBRUARY 22. PRESS TEXT INCLUDED STATEMENT THAT THE QUEBEC GOVERNMENT PROPOSES TO BUY FROM GENERAL DYNAMICS THE CONTROL OF ASBESTOS CORPORATION. WHEN QUERIED BY PRESS AS TO WHY HE MADE NO MENTION OF ASBESTOS CORP. IN HIS SPEECH, PARIZEAU REPLIED THAT LIMITED OFFICIAL USE

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HE HAD SIMPLY FORGOTTEN. LATEST ACTOR IS NATURAL RESOURCES MINISTER YVES BERUBE WHO RECENTLY STATED THAT HE DOES NOT SEE THE ASBESTOS INDUSTRY BEING NATIONALIZED IN THE FUTURE. WITHIN SEVERAL DAYS, HOWEVER, HE MODIFIED HIS STATEMENT TO SAY THAT WHILE HE DOES NOT FAVOR IT AS A TOOL NATIONALIZATION IS STILL ONE OF OPTIONS BEING CONSIDERED BY PQ. AT OTHER TIMES, PQ MINISTERS LANDRY, TREMBLAY, AND COUTURE HAVE ALSO MADE STATEMENTS ON ASBESTOS INDUSTRY.

5. A COMMONLY HELD BELIEF, WHICH APPEARS TO ORIGINATE IN GOVERNMENT IN QUEBEC CITY, IS THAT PQ WILL MOVE TO ENTER ASBESTOS INDUSTRY THROUGH ACQUISITION OF GENERAL DYNAMIC'S 54 O/O OWNERSHIP OF ASBESTOS CORP. (SEE QUEBEC 48). CHIEF EXECUTIVE OFFICER OF ASBESTOS CORP. TOLD CONSULATE, HOWEVER, THAT HIS COMPANY HAS NO INTEREST IN SELLING ITS SHARES TO PROVINCIAL GOVERNMENT, AND THAT, FURTHERMORE, THERE HAVE BEEN NO CONVERSATIONS WHATSOEVER BETWEEN GENERAL DYNAMICS AND PROVINCIAL GOVERNMENT REGARDING SUCH A TRANSACTION. ACCORDING TO THIS OFFICIAL, GENERAL DYNAMICS MANAGEMENT IN ST. LOUIS WAS STUNNED WHEN THEY READ NEWS REPORTS OF PARIZEAU'S STATEMENT. FIFTY-FOUR PERCENT OWNERSHIP IN ASBESTOS CORP. GIVES

GENERAL DYNAMICS SLIGHTLY MORE THAN HALF OF ASBESTOS CORP'S PROFITS OF \$20 MILLION IN 1976, WHICH IN TURN EQUALS ABOUT ONE-SEVENTH OF GENERAL DYNAMIC'S TOTAL NET PROFITS IN 1976. OFFICIALS HERE IN MONTREAL REPORT THAT GENERAL DYNAMICS THEREFORE HAS NO INTEREST IN SELLING ITS SHARES. RUMORS THAT GENERAL DYNAMICS IS INTERESTED IN SELLING OUT, OFFICIALS HERE BELIEVE, IS CARRYOVER FROM SITUATION EXISTING SEVERAL YEARS AGO WHEN, UNDER DIFFERENT MANAGEMENT AND POOR MARKET CONDITIONS, GENERAL DYNAMICS HAD MADE KNOWN ITS INTEREST IN DISPOSING OF ASBESTOS CORP. HOWEVER, NO ONE IN PROVINCIAL GOVERNMENT, THEY CLAIM, HAS TALKED TO ASBESTOS CORP. OR GENERAL DYNAMICS SINCE THAT TIME. FOR THOSE PORPOSING DIRECT GOVERNMENT PARTICIPATION IN INDUSTRY, ACQUISITION OF GENERAL DYNAMIC'S SHARES IN ASBESTOS CORP. NEVERTHELESS PROBABLY CONTINUES TO BE VIEWED AS EASIEST ROUTE, BOTH BECAUSE GOVERNMENT WOULD BE BUYING ONLY HALF OF COMPANY AND BECAUSE ASBESTOS CORP., AS PRODUCER OF RAW FIBER ONLY, IS NOT VERTICALLY INTEGRATED. ON OTHER HAND, AUSTERITY-MINDED ADMINISTRATION WOULD BE HARD PRESSED, TO COME UP LIMITED OFFICIAL USE

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WITH ESTIMATED \$70 MILLION NEEDED TO PURCHASE SHARES HELD BY GENERAL DYNAMICS.

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INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
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INFO AMEMBASSY OTTAWA  
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6. PRIOR TO ANNOUNCEMENT BY JOHNS-MANVILLE TWO WEEKS AGO THAT IT WOULD PROCEED WITH PREVIOUSLY ANNOUNCED - AND SUBSEQUENTLY SUSPENDED - \$77 MILLION EXPANSION PROGRAM AT ITS QUEBEC MINE, IT APPEARED THAT THERE HAD BEEN LITTLE COMMUNICATION BETWEEN ASBESTOS INDUSTRY AND PQ GOVERNMENT. WHILE GOVERNMENT DENIES IT HAS MET WITH JOHNS-MANVILLE ON SUBJECT, THERE IS SPECULATION THAT COMPANY MAY HAVE RECEIVED SOME FORM OF ASSURANCES FROM GOVERNMENT BEFORE ANNOUNCING ITS DECISION TO RESUME EXPANSION PROGRAM. PRESIDENT OF JOHNS-MANVILLE, WHO WAS IN MONTREAL MARCH 17 TO INAUGURATE A NEW PRODUCTION LINE, ALSO DENIED THAT COMPANY HAD RECEIVED ANY ASSURANCES, ALTHOUGH HE SAID HE BELIEVED THAT LEVESQUE GOVERNMENT WOULD NOT NATIONALIZE COMPANY'S HOLDINGS IN QUEBEC. SIGNIFICANTLY, MCKINNEY SAID THAT JOHNS-MANVILLE WOULD BE WILLING TO PARTICIPATE IN JOINT VENTURE IN PROCESSING WITH THE GOVERNMENT. FOR ITS PART, ASBESTOS CORP. STATES THAT IT HAS HAD NO CONTACT AT ALL WITH GOVERNMENT ON ASBESTOS POLICY, AND IN VIEW OF NUMBER OF OFFICIALS SPEAKING OUT ABOUT ASBESTOS INDUSTRY, COMPANY SAYS IT WOULD NOT KNOW WHERE TO GO IF IT DID WANT TO TALK TO GOVERNMENT. COMPANY HAS DECIDED NOT TO INITIATE ANY CONTACTS, PREFERRING LIMITED OFFICIAL USE

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GOVERNMENT TO TAKE FIRST STEP.

7. DIFFICULTIES FACING GOVERNMENT IN ELABORATING POLICY HAVE PROBABLY NOT BEEN HELPED BY ITS OFTEN STATED OBJECTIVE OF RAISING PERCENTAGE OF ASBESTOS PROCESSING DONE IN QUEBEC FROM CURRENT FIGURE OF AROUND 4 O/O OF TOTAL ASBESTOS PRODUCTION TO FIGURE APPROACHING 20 O/O, WITH PRINCIPAL OBJECTIVE OF INCREASING EMPLOYMENT OPPORTUNITIES IN QUEBEC. STATEMENTS HAVE RAISED EXPECTATIONS REGARDING EMPLOYMENT WHICH WILL BE DIFFICULT TO MEET FOR NUMBER OF REASONS, NOT LEAST OF WHICH IS THAT ASBESTOS PROCESSING IS CAPITAL, NOT LABOR, INTENSIVE INDUSTRY. ACCORDING TO GOVERNMENT, ACHIEVEMENT OF 20 O/O OBJECTIVE WOULD MEAN ANOTHER 8,000 JOBS IN QUEBEC. (TOTAL EMPLOYMENT IN QUEBEC'S ASBESTOS MINES APPROXIMATES 6,500, AN INCREASE OF ONLY 6 O/O OVER LEVEL PREVAILING FIFTEEN YEARS AGO.) INDUSTRY SOURCES CONTEST THIS FIGURE, ARGUING THAT MARKETS WOULD NOT SUPPORT THE CREATION OF MORE THAN AN ADDITIONAL 700 JOBS IN ASBESTOS PROCESSING.

8. PRINCIPAL PROBLEM IN INCREASING PROCESSING OPERATIONS IS THAT BULK OF ASBESTOS PRODUCED IN QUEBEC IS USED IN PRODUCTS WHERE CONTENT OF ASBESTOS IS SMALL COMPARED TO TOTAL WEIGHT OF PRODUCT. AS EXAMPLE, NEARLY 70 O/O OF ASBESTOS IN WORLD IS USED IN CEMENT PRODUCTS WHICH BECAUSE OF COST TO WEIGHT RATIOS MUST BE PRODUCED NEAR FINAL MARKETS. RELATIVE TO OTHER COUNTRIES, CANADA USES SMALL AMOUNTS OF ASBESTOS CEMENT IN CONSTRUCTION, AND EXISTING CAPACITY IN CANADA IS MORE THAN ADEQUATE TO MEET DOMESTIC REQUIREMENTS. SUCCESS IN EXPANSION OF PROCESSING OPERATIONS WILL THUS DEPEND TO A LARGE EXTENT ON STIMULATION OF

DOMESTIC DEMAND FOR PRODUCTS WITH HEAVY WEIGHT RATIO RELATIVE TO ASBESTOS CONTENT, AND DEVELOPMENT OF EXPORT MARKETS - WHERE COMPETITION IS INTENSE, MARKETING IS TRICKY, AND SUBSTITUTE PRODUCTS ARE AVAILABLE - FOR PRODUCTS WITH A HIGH ASBESTOS CONTENT RELATIVE TO WEIGHT.

9. ASBESTOS INDUSTRY IS SPONSORING STUDY TO BE CARRIED OUT BY SNC, A LARGE MONTREAL-BASED ENGINEERING FIRM, AND ARTHUR LITTLE, LIMITED OFFICIAL USE

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A LEADING CONSULTANT IN ASBESTOS INDUSTRY. STUDY WILL EXPLORE FEASIBILITY OF WIDE RANGE OF PROCESSING OPERATIONS FOR QUEBEC. EARLIER, MORE LIMITED STUDY, WHICH WAS COMMISSIONED BY FORMER PROVINCIAL LIBERAL GOVERNMENT, EXPLORED POSSIBILITIES OF PROCESSING ASBESTOS PAPER AND ASBESTOS TEXTILES WITHIN PROVINCE. WHILE STUDY HAS NOT BEEN GIVEN MUCH PUBLICITY, IT REPORTEDLY CONCLUDED THAT ECONOMIC POSSIBILITIES WERE NOT GREAT. CONCLUSION MAY HAVE ENCOURAGED INDUSTRY TO SPONSOR A BROADER STUDY, AS ECONOMICS FOR PROCESSING OF PAPER AND TEXTILES IN QUEBEC ARE PROBABLY BETTER THAN FOR MOST OTHER ASBESTOS PRODUCTS.

10. INDUSTRY NOW BELIEVES THAT GOVERNMENT IS AIMING FOR MID-MAY DATE TO MAKE STATEMENT ON ASBESTOS POLICY. EXPECTATIONS ARE THAT, AS MINIMUM, HEALTH STANDARDS WILL BE MADE MORE RIGOROUS, AND THAT PERHAPS SOME TYPES OF INCENTIVES WILL BE OFFERED TO INDUCE FIRMS TO UNDERTAKE PROCESSING OPERATION WITHIN PROVINCE. IN GENERAL, INDUSTRY APPEARS MORE RELAXED THAN IT WAS SEVERAL MONTHS AGO. THERE IS STILL CONCERN OVER HOW PQ WILL DELIVER ON ITS PROMISES TO BECOME IMPORTANT ACTOR IN MANAGEMENT OF QUEBEC'S ASBESTOS INDUSTRY, AND INDUSTRY IS MINDFUL OF STATEMENT BY NATURAL RESOURCES MINISTER BERUBE THAT NATIONALIZATION OF INDUSTRY IS STILL ONE OF OPTIONS UNDER CONSIDERATION. BUT, THERE IS AT SAME TIME GROWING FEELING, BASED ON WHAT IS CONCEIVED TO BE ENHANCED PQ AWARENESS OF ECONOMIC REALITIES, THAT PQ WILL ADOPT POLICY THAT INDUSTRY CAN LIVE WITH.  
HARPER

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## Message Attributes

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